

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other				Local Government Name		County	
Audit Date		Opinion Date		Date Accountant Report Submitted to State:			

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☐ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☐ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☐ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☐ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☐ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☐ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☐ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			
Reports on individual federal financial assistance programs (program audits).			
Single Audit Reports (ASLGU).			

Certified Public Accountant (Firm Name)				
Street Address		City	State	ZIP Code
Accountant Signature <i>Abraham & Gellray, P.C.</i> <i>Alan M. Stone</i>			Date	

**Southern Clinton County
Municipal Utilities Authority
DeWitt, Michigan**

FINANCIAL STATEMENTS

December 31, 2004

Southern Clinton County Municipal Utilities Authority

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INDEPENDENT AUDITOR'S REPORT

To the Board of the
Southern Clinton County
Municipal Utilities Authority
DeWitt, Michigan

We have audited the accompanying financial statements of the Southern Clinton County Municipal Utilities Authority as of and for the years ended December 31, 2004 and 2003, as listed in the Table of Contents. These financial statements are the responsibility of the Southern Clinton County Municipal Utilities Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

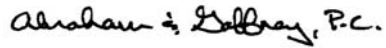
We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Southern Clinton County Municipal Utilities Authority as of December 31, 2004 and 2003, and the results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note A, the Authority has implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, as of January 1, 2004, along with all related statements and interpretations.

The management's discussion and analysis, as identified in the table of contents, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise Southern Clinton County Municipal Utilities Authority's basic financial statements. The other supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of the Southern Clinton County Municipal Utilities Authority. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

March 1, 2005

Southern Clinton County Municipal Utilities Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2004

The intent of the management discussion and analysis is to provide highlights of Southern Clinton County Municipal Utilities Authority's (SCCMUA) financial activities for the fiscal year ended December 31, 2004. Readers are encouraged to read this section in conjunction with the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

- **Net Assets:** The assets of SCCMUA exceeded its liabilities by \$6,355,882. Of this amount, \$337,578 (unrestricted net assets) may be used to meet SCCMUA's ongoing obligations to citizens and creditors. The total net assets increased by \$850,972. Total assets also increased due to the purchase of equipment and a new vehicle and cash put into reserve for the Solids Handling Project.
- **Operating Revenues and Expenses:** Revenues and expenses were lower for the fiscal year ending December 31, 2004 than for the fiscal year ending December 31, 2003. This was due to capital projects in 2003 that were paid directly by the municipalities through payments. The municipalities have been contributing to their Solids Handling Reserves in order to fully fund the Solids Handling Project without incurring additional debt at the Authority.
- **Nonoperating Revenues and Expenses:** Investment income was \$50,815 for fiscal year ending December 31, 2004, approximately \$32,000 less than the prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

The annual report includes this management discussion and analysis report, the independent auditor's report, and the basic financial statements of SCCMUA, including notes that explain in more detail some of the information in the financial statements.

As a municipal wastewater treatment plant, SCCMUA engages in primarily enterprise operations in various separate and distinct activities. These activities include but are not limited to: 1) treatment of domestic and industrial wastewater; 2) maintenance of sanitary sewers; and 3) lift station operation and maintenance. SCCMUA was created by the City of DeWitt, and DeWitt, Bath, and Watertown Charter Townships to provide collection, treatment and disposal of sewage for the benefit of their constituents.

REQUIRED FINANCIAL STATEMENTS

The financial statements report information of SCCMUA using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities. The Statement of Net Assets includes all of SCCMUA's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to their creditors (liabilities). It also provides the basis for evaluating the capital structure of SCCMUA and assessing their liquidity and financial flexibility.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Assets. This statement measures the success of SCCMUA's operations over the past year.

The final required financial statement is the Statement of Cash Flows. This statement reports cash receipts, cash payments and net changes in cash resulting from operations, investing, and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

Southern Clinton County Municipal Utilities Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2004

FINANCIAL ANALYSIS OF SCCMUA

The Statement of Net Assets and the Statement of Activities provide information to determine how SCCMUA did financially during fiscal year 2004. The net assets, or the difference between assets and liabilities, and the changes in them can indicate whether financial health is improving or deteriorating over time. However, other non-financial factors such as changes in economic conditions, population growth, and new or changed government legislation also need to be considered in determining SCCMUA's financial health.

NET ASSETS

SCCMUA's Condensed Statement of Net Assets and Statement of Revenue, Expenses and Changes in Fund Net Assets are presented in the following Tables.

TABLE 1
CONDENSED STATEMENT OF NET ASSETS

	<u>12/31/2004</u>	<u>12/31/2003</u>
Current Assets	\$ 1,819,166	\$ 1,104,200
Noncurrent Assets	3,206,633	3,267,982
Capital Assets	<u>1,512,752</u>	<u>1,306,072</u>
Total Assets	6,538,551	5,678,254
Current Liabilities	145,130	113,452
Noncurrent Liabilities	<u>37,539</u>	<u>59,892</u>
Total Liabilities	182,669	173,344
Invested in Capital Assets	1,512,752	1,306,072
Restricted	4,505,552	3,606,613
Unrestricted	<u>337,578</u>	<u>597,225</u>
Total Net Assets	<u>\$ 6,355,882</u>	<u>\$ 5,504,910</u>

While the Statement of Net Assets shows the change in financial position of net assets, the Statement of Revenues, Expenses and Changes in Net Assets shows how total revenues and expenditures increased the net assets. In 2005, Capital Consultants will be performing a Wastewater Rate Study. This will determine the future user fees that the municipalities must charge to continue operation of this facility. The depreciation expense of \$192,926 is a noncash expense, which represents the reduction in the value of the facility and system.

Southern Clinton County Municipal Utilities Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2004

TABLE 2
CONDENSED STATEMENT OF REVENUE, EXPENSES,
AND CHANGES IN NET ASSETS

	<u>12/31/2004</u>	<u>12/31/2003</u>
Operating Revenues	\$ 2,855,358	\$ 3,339,136
Nonoperating Revenues	<u>50,815</u>	<u>82,872</u>
Total Revenues	2,906,173	3,422,008
Depreciation Expense	192,926	228,709
Other Operating Expense	<u>1,862,275</u>	<u>2,667,919</u>
Total Expenses	<u>2,055,201</u>	<u>2,896,628</u>
Changes in Net Assets	850,972	525,380
Beginning Net Assets	5,504,910	4,950,516
Prior Period Adjustment	<u>-</u>	<u>29,014</u>
Ending Net Assets	<u>\$ 6,355,882</u>	<u>\$ 5,504,910</u>

The rate charged to municipal users is determined by each municipality based on the most current Wastewater Rate Study. The budget is made up of several parts. Each municipality is billed 100% for their collection system budget. The budget for the Plant and Administrative costs are billed based on each municipality's ownership in the Authority. The Process costs are billed based on the previous full years flow into the facility by each municipality. Industrial Pretreatment charges are based on the adopted budget for that department, divided by the actual number of Industrial and Significant Industrial users. The Annual Replacement reserve is used to pay for capital improvements such as computer upgrades, plant improvements and equipment.

BUDGETARY HIGHLIGHTS

SCCMUA is an enterprise fund and is not required to adopt an annual budget. However, the SCCMUA Authority Board does adopt an annual Operating Budget and a seven-year Capital Improvement Plan following a public hearing. The Operating Budget includes proposed expenses and the means of financing them. The SCCMUA's operating budget remains in effect, but can be revised with SCCMUA Authority Board approval prior to the December 31 year end.

CAPITAL ASSETS

At the end of 2004, SCCMUA invested \$209,206 in equipment for the wastewater treatment plant. A new service truck, computers for the offices, five pumps, and the second phase of painting the clarifiers were purchased. In addition, the SCCMUA made improvements to the system. The amount added to the system during this fiscal year as construction in progress was \$190,400. SCCMUA has a seven year Asset Management Plan that includes continued improvements for controls, radios, lift station, and exterior work on the plant. The goal of any asset management program is to maintain the assets in as close to "new" condition to eliminate the need for more costly repairs and/or replacement. By keeping the assets in "new", "excellent," or "good" condition (depending on the Asset Management terms being used), experience has shown that the ultimate costs are substantially reduced. A rule of thumb is that for every \$1 of capital maintenance, nearly \$4 in more costly repairs and replacements are saved. The major project for this facility is the Solids Handling project that involves building two new digesters and new storage for the sludge. This project is expected to be completed in the fall of 2006. For additional information regarding capital assets, refer to Note C on page 8.

Southern Clinton County Municipal Utilities Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2004

DEBT ADMINISTRATION

At the end of the 2004 fiscal year, the Authority had no outstanding debt. This was unchanged from the 2003 fiscal year.

CONTACT INFORMATION

This financial report is designed to provide our customers and creditors with a general overview of SCCMUA's finances and to demonstrate its accountability for the funds it receives. Anyone having questions regarding this report or desiring additional information may contact Lisa Mead, Secretary/Treasurer, SCCMUA 3671 W. Herbison Rd, DeWitt, MI 48820 or by phone at (517) 669-8311.

BASIC FINANCIAL STATEMENTS

Southern Clinton County Municipal Utilities Authority

STATEMENT OF NET ASSETS

December 31, 2004 and 2003

	2004	2003
ASSETS		
Current assets		
Cash	\$ 1,572,186	\$ 742,353
Short-term investments	240,016	342,413
Accounts receivable	6,964	19,434
Total current assets	1,819,166	1,104,200
Noncurrent assets		
Investments	3,206,633	3,267,982
Capital assets, net	1,512,752	1,306,072
Total noncurrent assets	4,719,385	4,574,054
TOTAL ASSETS	6,538,551	5,678,254
LIABILITIES AND NET ASSETS		
LIABILITIES		
Current liabilities		
Accounts payable	105,251	100,680
Accrued wages payable	17,223	11,747
Other accrued liabilities	302	1,025
Current portion of vacation and sick pay	22,354	-
Total current liabilities	145,130	113,452
Noncurrent liabilities		
Accrued vacation and sick pay	37,539	59,892
TOTAL LIABILITIES	182,669	173,344
NET ASSETS		
Invested in capital assets	1,512,752	1,306,072
Restricted for:		
Capital replacement	4,472,917	3,569,289
Other purposes	32,635	32,324
Unrestricted	337,578	597,225
TOTAL NET ASSETS	\$ 6,355,882	\$5,504,910

See accompanying notes to financial statements.

Southern Clinton County Municipal Utilities Authority

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Years Ended December 31, 2004 and 2003

	2004	2003
OPERATING REVENUES		
Charges for services	\$ 2,831,827	\$3,284,618
Other	23,531	54,518
TOTAL OPERATING REVENUES	2,855,358	3,339,136
OPERATING EXPENSES		
Salaries	703,860	682,864
Benefits	251,479	221,564
Motor vehicle and mileage	18,529	13,936
Utilities	260,337	236,436
Regulatory fees	5,500	-
Insurance	82,479	80,328
Repairs and maintenance	338,669	202,200
Education and training	16,443	12,658
Professional services	49,214	44,002
Supplies	67,187	62,092
Solids handling	63,289	63,160
Capital improvements	-	998,990
Miscellaneous	5,289	49,689
Equipment depreciation	192,926	228,709
TOTAL OPERATING EXPENSES	2,055,201	2,896,628
OPERATING INCOME	800,157	442,508
NONOPERATING REVENUE		
Interest	50,815	82,872
CHANGE IN NET ASSETS	850,972	525,380
Net assets, beginning of year	5,504,910	4,950,516
Prior period adjustments	-	29,014
Net assets, end of year	<u>\$ 6,355,882</u>	<u>\$5,504,910</u>

See accompanying notes to financial statements.

Southern Clinton County Municipal Utilities Authority

STATEMENT OF CASH FLOWS

Years Ended December 31, 2004 and 2003

	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	\$ 2,867,828	\$ 3,342,314
Cash paid to suppliers	(902,364)	(1,736,399)
Cash paid to employees	(950,586)	(903,623)
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,014,878	702,292
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital purchases	(399,606)	(275,231)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest revenue	50,815	82,872
Purchase of investments	(357,648)	(1,882,961)
Maturities of investments	521,394	1,657,175
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	214,561	(142,914)
NET INCREASE IN CASH AND CASH EQUIVALENTS DURING YEAR	829,833	284,147
Cash and cash equivalents, beginning of year	742,353	458,206
Cash and cash equivalents, end of year	<u>\$ 1,572,186</u>	<u>\$ 742,353</u>
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 800,157	\$ 525,380
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	192,926	228,709
Decrease in accounts receivable	12,470	3,178
Increase in accounts payable	4,571	27,092
Increase in accrued liabilities	4,754	805
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 1,014,878</u>	<u>\$ 785,164</u>

See accompanying notes to financial statements.

Southern Clinton County Municipal Utilities Authority

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Southern Clinton County Municipal Utilities Authority (SCCMUA) was created under Public Act 233 of 1955, as amended, by contractual agreement between DeWitt Charter Township, Bath Charter Township, the City of DeWitt, and Watertown Charter Township. The SCCMUA Board is made up of five (5) members appointed by DeWitt Charter Township, two (2) members appointed by Watertown Charter Township, two (2) members appointed by Bath Charter Township, and one (1) member appointed by the City of DeWitt. The purpose of the SCCMUA is to operate, maintain, administer, and manage the sewage disposal system for the benefit of the constituent municipalities.

The allocation of costs of the SCCMUA related to the constituent municipalities is either directly charged based on direct benefit or is based on ownership percentages and/or usage of the system as measured by billable flow. The following details the ownership percentages and billable flow percentages that were utilized for the year ended December 31, 2004.

	<u>Ownership</u>	<u>Billable Flow</u>
DeWitt Charter Township	55.7576 %	65.53 %
Bath Charter Township	16.7273	21.47
City of DeWitt	11.3131	11.28
Watertown Charter Township	16.2020	1.72

1. Reporting Entity

The accompanying financial statements are exclusive presentations of the financial condition and results of operations of the Southern Clinton County Municipal Utilities Authority. The SCCMUA is considered a "joint venture" of the constituent municipalities.

2. Basis of Presentation

The operations of the SCCMUA are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenses. The SCCMUA's resources are allocated to and accounted for in the individual fund based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The fund in the financial statements in this report is described as follows:

PROPRIETARY FUND

Enterprise Fund - This fund is used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

3. Measurement Focus

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The proprietary fund is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of this fund are included on the Statement of Net Assets. Proprietary fund type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

4. Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
- CONTINUED

4. Basis of Accounting - continued

The Proprietary Fund is accounted for using the accrual basis of accounting. The revenues are recognized when they are earned, and the expenses are recognized when they are incurred.

5. Budgets and Budgetary Accounting

The annual budget of the SCCMUA is prepared by SCCMUA management and approved by the SCCMUA Budget and Finance Committee. The proposed budget and allocation of costs are submitted to the municipalities in August prior to the beginning of each fiscal year. The municipalities advise SCCMUA of any objections to the proposed budget and allocation and then each municipality Board approves the budget. The SCCMUA Board then adopts the approved budgets in November prior to the beginning of each fiscal year.

6. Cash and Investments

Cash consists of the SCCMUA checking account.

Investments consist of U.S. Government securities and pooled investment funds. The U.S. Government securities and pooled investment funds are stated at market value. The certificates of deposit are stated at cost, which approximates market value.

7. Capital Assets

The accounting and reporting treatment applied to the capital assets and associated with a fund are determined by its measurement focus. The proprietary fund is accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with the activity are included on the Statement of Net Assets.

Capital assets are recorded at cost, or if donated, at fair market value at the date of donation. Expenditures that materially extend the useful life of existing assets are capitalized. Depreciation of all exhaustible capital assets used by the proprietary fund is charged as an expense against operations. Accumulated depreciation is reported on the Statement of Net assets. Depreciation is computed on the straight-line method over the estimated useful lives of the related assets.

The estimated useful lives are:

Machinery and equipment	3 - 50 years
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The costs related to original construction of the plant are recorded by each constituent municipality in their financial statements. Any capital improvements that have been made to the plant by the SCCMUA have not been recorded as a capital asset in SCCMUA's financial statements, as it was determined to not have materially extended the usual life of the plant.

8. Accrued Vacation and Sick Leave

The SCCMUA employees are granted vacation and sick leave in varying amounts. In the event of termination, an employee is paid for certain portions of unused accumulated vacation and sick time. The dollar amount of those rights amounted to \$59,893 at December 31, 2004. The amounts of \$22,354 and \$37,539 have been reported as current and noncurrent liabilities, respectively, on the Statement of Net Assets.

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
- CONTINUED

9. Comparative Data

Comparative data for the prior year has been presented in some of the accompanying financial statements in order to provide an understanding of changes in the fund's financial position and operations of each fund. Certain balances in the prior year financial statements have been restricted for comparative purposes to conform with the presentation in the current year financial statements.

10. Accounting Change

Effective January 1, 2004, SCCMUA implemented the provisions of Governmental Accounting Standards Board Statement 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments (GASB No. 34) along with all related statements and interpretations. Changes to SCCMUA's financial statements as a result of GASB No. 34 are as follows:

- A Management's Discussion and Analysis (MD&A) section provided analysis of SCCMUA's overall financial position and results of operations has been added.

This implementation has also required certain disclosures to be made in the notes to the financial statements concurrent with the implementation of Statement No. 34 based on GASB Statement No. 38. As a result, certain note disclosures have been added and/or amended.

NOTE B: CASH AND INVESTMENTS

In accordance with Michigan Compiled Laws, the SCCMUA is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under laws of this State or the United States, but only if the bank, savings and loan association, savings bank or credit union is eligible to be a depository of surplus funds belonging to the State under Section 6 of 1855 PA 105, MCL 21.146.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures more than 270 days after the date of purchase.
4. The United States government or Federal agency obligations repurchase agreements.
5. Bankers acceptances of United States Banks.
6. Mutual funds composed of investment vehicles, which are legal for direct investment by local units of government in Michigan.

Southern Clinton County Municipal Utilities Authority

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE B: CASH AND INVESTMENTS - CONTINUED

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State funds, securities issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Corporation or Government National Mortgage Association.

Deposits

The SCCMUA's deposits at December 31, 2004, are composed of the following:

<u>Account Type</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
Checking accounts	<u>\$ 1,571,986</u>	<u>\$ 1,576,729</u>

The cash and cash equivalents caption on the balance sheet include \$200 in petty cash. Deposits of the SCCMUA are at federally insured banks located in the State of Michigan with all accounts maintained in the name of the SCCMUA. As of December 31, 2004, the SCCMUA accounts were insured by the FDIC for \$200,000, and the amount of \$1,376,729 was uninsured and uncollateralized.

Investments

As of December 31, 2004, the carrying amount (which is market value) for each investment are as follows:

<u>Investment Type</u>	<u>Carrying Amount/ Market Value</u>
Insured or registered for which the securities are held by the SCCMUA's agent in the SCCMUA's name U.S. Treasury securities	<u>\$ 2,827,355</u>
Uncategorized pooled investment funds	<u>619,294</u>
	<u>\$ 3,446,649</u>

The cash and investments referred to above have been reported in either the cash or investments captions on the Statement of Net Assets, based upon criteria disclosed in Note A. The following summarizes the categorization of these amounts as of December 31, 2004:

Cash	<u>\$ 1,572,186</u>
Investments - current	<u>240,016</u>
Investments - noncurrent	<u>3,206,633</u>
	<u>\$ 5,018,835</u>

Southern Clinton County Municipal Utilities Authority

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE C: CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2004, was as follows:

	<u>Balance</u> <u>Jan. 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>Dec. 31, 2004</u>
Business-type activities:				
Machinery and equipment	\$ 2,626,121	\$ 209,206	\$ -	\$ 2,835,327
Construction in progress (not depreciated)	<u>-</u>	<u>190,400</u>	<u>-</u>	<u>190,400</u>
Totals at historical cost	2,626,121	399,606	-0-	3,025,727
Less accumulated depreciation for:				
Machinery and equipment	<u>(1,320,049)</u>	<u>(192,926)</u>	<u>-</u>	<u>(1,512,975)</u>
Net Capital Assets	<u>\$ 1,306,072</u>	<u>\$ 206,680</u>	<u>\$ -0-</u>	<u>\$ 1,512,752</u>

NOTE D: RETIREMENT PLAN

Plan Description

The Authority participates in the Michigan Municipal Employees Retirement System, an agent multiple-employer defined benefit pension plan that covers all eligible full-time employees of the Authority. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by the Authority Board and by negotiation with the Authority's collective bargaining units. The plan requires a 3% contribution of the first \$4,200 of annual compensation and 5% of portions over \$4,200 from the employees. The Authority is required to contribute remaining amounts necessary to fund the plan.

Annual Pension Cost

For year ended December 31, 2004, the Authority's annual pension cost of \$-0- for the plan was equal to the Authority's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2002, using the entry actual age cost method. Significant actuarial assumptions used include (a) a 8.00 percent investment rate of return (b) projected salary increases of 4.5 percent per year compounded annually, attributable to inflation (c) additional salary increases ranging from 0% to 4.2% per year depending on age, seniority and merit, and (d) assumption benefits will increase 2.5% per year (annually) for persons under Benefit E-1 or E-2 after retirement. The actuarial value of assets was determined using techniques that smooth the effects of short term volatility over a four (4) year period.

Three (3) year trend information

	<u>2001</u>	<u>2002</u>	<u>2003</u>
Actuarial value of assets	\$ 1,354,763	\$ 1,422,401	\$ 1,576,784
Actuarial accrued liability (AAL)	1,097,362	1,292,495	1,483,947
Unfunded (overfunded) AAL	(257,401)	(129,906)	(92,837)
Funded ratio	123 %	110 %	106 %
Covered payroll	557,723	604,682	642,989
UAAL as a percentage of covered payroll	(46)%	(21)%	(14)%

Southern Clinton County Municipal Utilities Authority

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE D: RETIREMENT PLAN - CONTINUED

	Year Ended December 31,		
	<u>2002</u>	<u>2003</u>	<u>2004</u>
Annual pension cost	\$ 0	\$ 0	\$ 0
Percentage of APC contributed	100 %	100 %	100 %
Net pension obligation	-	-	-

E: RISK MANAGEMENT

The SCCMUA carries commercial insurance for the risk of loss due to workers' compensation claims.

The SCCMUA also participates in a State pool, the Michigan Municipal Risk Management Authority with other municipalities for property, liability, bonding, and casualty losses. The pool is organized under Public Act 138 of 1982, as amended. The SCCMUA has no liability for additional assessments based on the claims filed against the pool nor do they have any right to dividends.

NOTE F: NET ASSETS

Net assets have been segregated into restricted and unrestricted components. The restricted portions of net assets represent the balances that have been set aside for specific purposes based upon agreements with the constituent municipalities developed through the annual budgeting process. Unrestricted net assets represent the remaining amounts that are available for general operating purposes for the specific functions. The restricted and unrestricted net assets are further segregated by constituent municipality based on operational allocation methodologies (i.e. direct ownership and/or billable flow percentages).

The following provides a detail of the restricted net assets balances as of December 31, 2004:

	<u>DeWitt Charter Township</u>	<u>Bath Charter Township</u>	<u>City of DeWitt</u>	<u>Watertown Charter Township</u>	<u>Total</u>
Invested in capital assets	\$ 794,082	\$ 414,609	\$ 158,669	\$ 145,392	\$ 1,512,752
Restricted for:					
Capital replacement:					
Digester	1,451,947	492,380	494,652	138,077	2,577,056
Plant equipment	144,952	43,486	29,410	42,120	259,968
Process equipment	715,139	214,542	145,100	207,804	1,282,585
New vehicle	21,388	6,416	4,339	6,215	38,358
Sewer system	85,501	97,058	12,832	49,500	244,891
Heavy vehicle and equipment	<u>39,063</u>	<u>11,719</u>	<u>7,926</u>	<u>11,351</u>	<u>70,059</u>
	2,457,990	865,601	694,259	455,067	4,472,917
Other purposes:					
Benefits	<u>18,197</u>	<u>5,458</u>	<u>3,692</u>	<u>5,288</u>	<u>32,635</u>
	<u>\$ 3,270,269</u>	<u>\$ 1,285,668</u>	<u>\$ 856,620</u>	<u>\$ 605,747</u>	<u>\$ 6,018,304</u>

Southern Clinton County Municipal Utilities Authority

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE F: NET ASSETS - CONTINUED

The following provides a detail of the unrestricted net assets balances as of December 31, 2004:

	<u>DeWitt Charter Township</u>	<u>Bath Charter Township</u>	<u>City of DeWitt</u>	<u>Watertown Charter Township</u>	<u>Total</u>
Designated for:					
Sewer system	\$ 141,030	\$ 38,855	\$ 41,598	\$ 30,380	\$ 251,863
Industrial pretreatment program	<u>56,169</u>	<u>18,403</u>	<u>9,669</u>	<u>1,474</u>	<u>85,715</u>
	<u>\$ 197,199</u>	<u>\$ 57,258</u>	<u>\$ 51,267</u>	<u>\$ 31,854</u>	<u>\$ 337,578</u>

The following provides a summary of the restricted and unrestricted net assets amounts by constituent municipality:

	<u>DeWitt Charter Township</u>	<u>Bath Charter Township</u>	<u>City of DeWitt</u>	<u>Watertown Charter Township</u>	<u>Total</u>
Restricted	\$ 3,270,269	\$ 1,285,668	\$ 856,620	\$ 605,747	\$ 6,018,304
Unrestricted	<u>197,199</u>	<u>57,258</u>	<u>51,267</u>	<u>31,854</u>	<u>337,578</u>
	<u>\$ 3,467,468</u>	<u>\$ 1,342,926</u>	<u>\$ 907,887</u>	<u>\$ 637,601</u>	<u>\$ 6,355,882</u>

OTHER SUPPLEMENTARY INFORMATION

Southern Clinton County Municipal Utilities Authority

COMBINING STATEMENT OF REVENUES AND EXPENSES

Year Ended December 31, 2004

	Investment Earnings and Interest Clearing	Sewer System	Industrial Pretreatment Program	Total
REVENUES				
Charges for services	\$ -	\$ 2,801,716	\$ 30,111	\$ 2,831,827
Interest	50,815	-	-	50,815
Other	-	23,531	-	23,531
TOTAL REVENUES	50,815	2,825,247	30,111	2,906,173
EXPENSES				
Salaries	-	696,553	7,307	703,860
Benefits	-	249,382	2,097	251,479
Motor vehicle and mileage	-	17,973	556	18,529
Utilities	-	260,337	-	260,337
Regulatory fees	-	5,500	-	5,500
Insurance	-	82,479	-	82,479
Repairs and maintenance	-	338,669	-	338,669
Education and training	-	14,477	1,966	16,443
Professional services	-	46,398	2,816	49,214
Supplies	-	66,123	1,064	67,187
Solids handling	-	63,289	-	63,289
Miscellaneous	-	5,289	-	5,289
Equipment depreciation	-	192,554	372	192,926
TOTAL EXPENSES	-0-	2,039,023	16,178	2,055,201
REVENUES OVER EXPENSES	\$ 50,815	\$ 786,224	\$ 13,933	\$ 850,972

Southern Clinton County Municipal Utilities Authority

STATEMENT OF REVENUES AND EXPENSES - BUDGET AND ACTUAL

Investment Earnings and Interest Clearing

Year Ended December 31, 2004

With Actual Amounts for Year Ended December 31, 2003

	<u>Budget</u>	<u>2004 Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>2003 Actual</u>
REVENUES				
Investment earnings and interest	\$ -	\$ 50,815	\$ 50,815	\$ 82,872
EXPENSES	<u>-</u>	<u>-</u>	<u>-0-</u>	<u>-</u>
REVENUES OVER EXPENSES	<u>\$ -0-</u>	<u>\$ 50,815</u>	<u>\$ 50,815</u>	<u>\$ 82,872</u>

NOTE: Budget data is presented for informational purposes only.

Southern Clinton County Municipal Utilities Authority

STATEMENT OF REVENUES AND EXPENSES - BUDGET AND ACTUAL

Sewer System

Year Ended December 31, 2004

With Actual Amounts for Year Ended December 31, 2003

	Amended Budget	2004 Actual	Variance Favorable (Unfavorable)	2003 Actual
REVENUES				
Charges for services				
DeWitt Charter Township	\$ 1,424,799	\$ 1,534,228	\$ 109,429	\$ 1,841,640
Bath Charter Township	561,447	703,622	142,175	884,786
City of DeWitt	305,210	321,476	16,266	277,651
Watertown Charter Township	380,852	242,390	(138,462)	256,261
Other	23,024	23,531	507	49,939
TOTAL REVENUES	2,695,332	2,825,247	129,915	3,310,277
EXPENSES				
Direct allocation (DA) -				
DeWitt Charter Township				
Salaries	111,557	64,663	46,894	85,974
Benefits	37,726	17,143	20,583	23,760
Motor vehicle and mileage	7,000	5,188	1,812	3,902
Professional services	1,500	1,549	(49)	635
Utilities	15,000	12,939	2,061	12,323
Repairs and maintenance	19,000	20,317	(1,317)	18,389
Collection system repairs	100,000	27,178	72,822	8,093
Capital improvements	-	-	-0-	376,926
Equipment depreciation	8,719	7,652	1,067	11,981
Total DA - DeWitt Charter Township	300,502	156,629	143,873	541,983
Direct allocation (DA) -				
Bath Charter Township				
Salaries	83,024	87,766	(4,742)	56,618
Benefits	28,077	22,776	5,301	14,119
Motor vehicle and mileage	7,500	5,559	1,941	4,181
Professional services	3,000	-	3,000	100
Utilities	45,000	47,774	(2,774)	43,117
Repairs and maintenance	20,000	45,352	(25,352)	29,134
Collection system repairs	109,697	98,785	10,912	5,490
Capital improvements	28,000	-	28,000	295,279
Equipment depreciation	17,023	17,198	(175)	21,307
Total DA - Bath Charter Township	341,321	325,210	16,111	469,345

Southern Clinton County Municipal Utilities Authority

STATEMENT OF REVENUES AND EXPENSES - BUDGET AND ACTUAL - CONTINUED

Sewer System

Year Ended December 31, 2004

With Actual Amounts for Year Ended December 31, 2003

	Amended Budget	2004 Actual	Variance Favorable (Unfavorable)	2003 Actual
EXPENSES - CONTINUED				
Direct allocation (DA) -				
City of DeWitt				
Salaries	\$ 21,039	\$ 19,226	\$ 1,813	\$ 18,793
Benefits	7,114	4,287	2,827	4,180
Motor vehicle and mileage	1,750	1,297	453	975
Professional services	1,000	-	1,000	-
Utilities	18,000	12,192	5,808	12,006
Repairs and maintenance	4,000	3,023	977	1,893
Collection system repairs	25,000	3,111	21,889	16,282
Equipment depreciation	2,264	2,184	80	2,802
Miscellaneous	5,000	-	5,000	42,641
	<hr/>	<hr/>	<hr/>	<hr/>
Total DA - City of DeWitt	85,167	45,320	39,847	99,572
Direct allocation (DA) -				
Watertown Charter Township				
Salaries	28,834	22,583	6,251	20,098
Benefits	9,751	5,791	3,960	4,658
Motor vehicle and mileage	1,750	1,297	453	975
Professional services	500	-	500	-
Utilities	4,000	3,617	383	3,068
Repairs and maintenance	5,000	6,130	(1,130)	1,865
Collection system repairs	8,000	3,876	4,124	3,751
Capital improvements	100,000	-	100,000	-
Equipment depreciation	2,574	2,494	80	2,991
	<hr/>	<hr/>	<hr/>	<hr/>
Total DA - Watertown Charter Township	160,409	45,788	114,621	37,406
Operation and maintenance				
Salaries	195,604	233,052	(37,448)	221,491
Benefits	32,117	37,065	(4,948)	31,808
Supplies	21,500	16,526	4,974	15,541
Motor vehicle and mileage	2,500	1,853	647	1,394
Insurance	80,000	82,479	(2,479)	80,328
Insurance - hospitalization	46,477	58,038	(11,561)	50,476
Insurance - workers' compensation	9,525	10,212	(687)	8,731
Insurance - dental	6,662	4,436	2,226	4,008
Insurance - long-term disability	7,000	6,139	861	5,346
Utilities	38,000	38,264	(264)	30,193
Repairs and maintenance	85,000	70,210	14,790	71,591

Southern Clinton County Municipal Utilities Authority

STATEMENT OF REVENUES AND EXPENSES - BUDGET AND ACTUAL - CONTINUED

Sewer System

Year Ended December 31, 2004

With Actual Amounts for Year Ended December 31, 2003

	Amended Budget	2004 Actual	Variance Favorable (Unfavorable)	2003 Actual
EXPENSES - CONTINUED				
Operation and maintenance - continued				
Miscellaneous	\$ 5,550	\$ 2,615	\$ 2,935	\$ 2,565
Equipment depreciation	75,955	79,070	(3,115)	94,445
Capital improvements	481,900	-	481,900	27,024
Total operation and maintenance	1,087,790	639,959	447,831	644,941
Authority administration				
Commissioner salaries	13,000	10,490	2,510	11,510
Employee salaries	82,212	86,087	(3,875)	95,744
Benefits	28,797	26,470	2,327	21,399
Education and training	5,000	4,524	476	3,432
Supplies	3,000	2,405	595	2,219
Motor vehicle and mileage	1,250	926	324	697
Professional services	34,000	25,390	8,610	21,448
Legal ads	6,500	1,926	4,574	3,378
Miscellaneous	1,500	546	954	605
Total administration	175,259	158,764	16,495	160,432
Processing				
Salaries	145,303	164,762	(19,459)	157,646
Benefits	49,138	55,457	(6,319)	48,821
Education and training	13,000	9,953	3,047	7,231
Office supplies	4,500	3,529	971	2,581
Process supplies	47,000	43,663	3,337	41,216
Motor vehicle and mileage	2,000	1,482	518	1,115
Professional services	28,000	19,459	8,541	12,284
Utilities	130,000	123,241	6,759	113,717
Regulatory fees	5,000	5,500	(500)	-
Repairs and maintenance	65,000	49,011	15,989	44,024
Solids handling	65,000	63,289	1,711	63,160
Miscellaneous	1,000	202	798	500
Capital improvements	149,282	-	149,282	-
Equipment depreciation	57,389	76,182	(18,793)	86,857
Total processing	761,612	615,730	145,882	579,152

Southern Clinton County Municipal Utilities Authority

STATEMENT OF REVENUES AND EXPENSES - BUDGET AND ACTUAL - CONTINUED

Sewer System

Year Ended December 31, 2004

With Actual Amounts for Year Ended December 31, 2003

	Amended Budget	2004 Actual	Variance Favorable (Unfavorable)	2003 Actual
EXPENSES - CONTINUED				
Lift stations (LS) - DeWitt and Bath Charter Townships				
Salaries	\$ 8,656	\$ 7,924	\$ 732	\$ 8,805
Benefits	2,927	1,568	1,359	2,779
Motor vehicle and mileage	500	371	129	279
Professional services	-	-	-0-	1,250
Utilities	26,000	22,310	3,690	22,012
Repairs and maintenance	16,000	11,093	4,907	626
Capital improvements	-	-	-0-	299,761
Collection system repairs	15,000	583	14,417	1,062
Equipment depreciation	7,533	7,774	(241)	7,831
Total processing LS - DeWitt and Bath Charter Townships	76,616	51,623	24,993	344,405
TOTAL EXPENSES	2,988,676	2,039,023	949,653	2,877,236
REVENUES OVER (UNDER) EXPENSES	\$ (293,344)	\$ 786,224	\$ 1,079,568	\$ 433,041

NOTE: Budget data is presented for informational purposes only.

Southern Clinton County Municipal Utilities Authority

STATEMENT OF REVENUES AND EXPENSES - BUDGET AND ACTUAL

Industrial Pretreatment Program

Year Ended December 31, 2004

With Actual Amounts for Year Ended December 31, 2003

	Amended Budget	2004 Actual	Variance Favorable (Unfavorable)	2003 Actual
REVENUES				
Charges for services	\$ 23,277	\$ 30,111	\$ 6,834	\$ 24,280
Miscellaneous	-	-	-0-	4,579
	<u>23,277</u>	<u>30,111</u>	<u>6,834</u>	<u>28,859</u>
TOTAL REVENUES	23,277	30,111	6,834	28,859
EXPENSES				
Salaries	8,000	7,307	693	6,185
Benefits	2,706	2,097	609	1,479
Supplies	900	1,064	(164)	535
Professional services	2,500	1,841	659	7,115
Laboratory fees	5,200	975	4,225	1,170
Motor vehicle and mileage	750	556	194	418
Education and training	2,000	1,966	34	1,995
Legal ads	500	-	500	-
Utilities	350	-	350	-
Equipment depreciation	372	372	-0-	495
	<u>23,278</u>	<u>16,178</u>	<u>7,100</u>	<u>19,392</u>
TOTAL EXPENSES	23,278	16,178	7,100	19,392
REVENUES OVER (UNDER) EXPENSES	\$ (1)	\$ 13,933	\$ 13,934	\$ 9,467

NOTE: Budget data is presented for informational purposes only.